

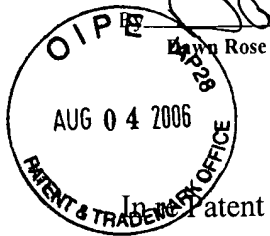
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Attorney Docket No.: A-2-10

On 8/1/06



IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In reply, Patent of:

Eggers, et al.

Application No. 10/602,240

Filing Date: 6/24/03

Title: SYSTEMS FOR ELECTROSURGICAL  
TISSUE TREATMENT IN CONDUCTIVE  
FLUID

)  
)  
) Examiner: Lee Cohen  
)  
) Art Unit: 3739  
)  
)  
) COMMUNICATION

Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

Sir:

Further to the communication mailed December 2, 2003, the following information is being brought to the Examiner's attention.

I. LITIGATION ACTIVITY

*Smith & Nephew* litigation

On July 25, 2001, ArthroCare Corporation commenced an action in the United States District Court for the District of Delaware against Smith & Nephew, Inc. ("Smith & Nephew") for infringement of U.S. Patent Nos. 5,697,536 ("the '536 Patent"), 5,697,882 ("the '882 Patent") and 6,224,592 ("the '592 Patent"). That action was assigned Civil Action No. 01-504-SLR (the "*Smith & Nephew* litigation"). The *Smith & Nephew* litigation proceeded to trial commencing on April 30, 2003. On May 12, 2003, the jury returned a verdict in favor of ArthroCare on infringement and validity issues with respect to all three patents. Thereafter, on June 20, 2003, the Court entered judgment on the jury's verdict.

In addition to the above documents, a number of post trial motions were filed on the issues of infringement, invalidity, and inequitable conduct. In particular, Smith & Nephew filed a motion for judgment as a matter of law; a motion for a new trial; a cross motion to strike ArthroCare's motion for entry of judgment of no inequitable conduct and a motion to modify the protective order. ArthroCare filed a motion for entry of judgment of no inequitable conduct and a motion for a permanent injunction.

On March 10, 2004 the Court ruled in favor of ArthroCare on all post trial motions. The Court issued a 90 page memorandum opinion: 1.) denying Smith & Nephew's motion for judgment as a matter of law; 2.) denying Smith & Nephew's motion for a new trial; 3.) granting ArthroCare's motion for entry of judgment of no inequitable conduct; 4.) denying Smith & Nephew's cross motion to strike ArthroCare's motion for entry of judgment of no inequitable conduct; 5.) granting ArthroCare's motion for a permanent injunction; and 6.) denying Smith & Nephew's motion to modify the protective order.

The Court also issued, on March 10, 2004, a memorandum opinion granting ArthroCare's motion to dismiss Smith & Nephew's antitrust counterclaims.

The above mentioned memorandum opinions and corresponding orders are enclosed for your consideration.

On June 9, 2004, the Court issued an order enjoining Smith and Nephew from directly infringing, inducing the infringement, and contributing to the infringement of the '536 Patent, the '882 Patent and the '592 Patent. The above mentioned memorandum opinions and corresponding orders are enclosed for your consideration. Smith & Nephew has appealed the judgment and the injunction to the United States Court of Appeals for the Federal Circuit.

On May 10, 2005, the Federal Circuit Court of Appeals issued a decision (attached) in connection with the lawsuit between ArthroCare and Smith & Nephew. In its decision, the Court, among other things, upheld the jury's verdict in favor of ArthroCare on U.S. Patent Nos. 5,697,882 and 6,224,592, but reversed the jury's verdict as to the validity of claims 46, 47, and 56 of U.S. Patent No. 5,697,536.

On May 23, 2005, Patentee filed a Combined Petition for Panel Rehearing and Rehearing *En Banc* (attached). The Petition specifies several points of law and fact overlooked or misapprehended by the Court of Appeals for the Federal Circuit in its May 10, 2005 Decision relating to the '536 Patent,

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the '882 Patent, and the '592 Patent. The Court issued an Order, dated July 12, 2005, denying Patentee's request for a panel rehearing and rehearing *En Banc*.

On September 2, 2005, ArthroCare and Smith & Nephew entered into a settlement agreement settling the legal disputes arising from the *Smith & Nephew* litigation. Attached is the Form 8-k, dated September 9, 2005, filed in connection with this material definitive agreement between ArthroCare and Smith & Nephew.

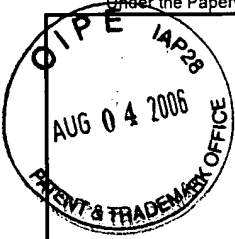
Respectfully submitted,



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